

**GOVERNMENT OF INDIA
COMMERCE AND INDUSTRY
LOK SABHA**

UNSTARRED QUESTION NO:67

ANSWERED ON:17.02.2009

IMPACT OF ECONOMIC SLOWDOWN ON PRODUCTION

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Will the Minister of COMMERCE AND INDUSTRY be pleased to state:

- (a) whether due to international economic meltdown, several Indian industries have started decreasing their production;
- (b) if so, the details of such industries and the reaction of the Government thereto;
- (c) whether the Government has issued any instruction to these industries to reduce prices of their products instead of decreasing or stopping production;
- (d) if so, the reaction of the industries thereto; and
- (e) the details of measures taken by the Government so far to reduce production cost and the outcome achieved thereon?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF COMMERCE & INDUSTRY(SHRI ASHWANI KUMAR)

(a) to (e): The international economic meltdown has affected some of the export oriented industries in India, such as textiles, handicrafts, leather, and gems and jewellery. Slowdown in the demand for automobiles and its ancillaries, cement, steel, housing sector etc. has also been seen.

The Government closely interacts with the Industry and Trade Associations to address issues relating to industrial development, and monitors production and prices. The prices of industrial products and the level of production are determined primarily by the market forces.

A number of steps have been taken by the Government to stimulate demand in the economy with the objective to address the impact of global financial crisis. Government announced two packages in December, 2008 and January, 2009. Measures introduced in these two packages, inter alia, include:

Reduction in Cenvat/ Excise duty : As an immediate measure to encourage additional spending, an across-the-board cut of 4% in the ad valorem CENVAT rate except petroleum was announced.

Measures to Support Exports: Several measures have been taken to support exporters such as :

\$ Interest subvention of 2% for pre and post shipment export credit for labour intensive industries such as textiles, handlooms, handicrafts, leather, Gems and jewellery , marine products and Micro, Small & Medium Enterprise sector.

\$ Additional funds of Rs.1100 crore to ensure full refund of Terminal Excise duty/Central Sales Tax.

\$ An additional allocation for export incentive schemes of Rs.350 crore.

\$ Government back-up guarantee to Export Credit Guarantee Corporation (ECGC) to the extent of Rs.350 crore to enable it to provide guarantees for exports to difficult markets/products.

\$ Refund of service tax to exporters on foreign agent commissions of upto 10 percent of Freight On Board (FOB) value of exports.

\$ Enhancement of duty drawback benefits on certain items including knitted fabrics, bicycles, agricultural hand tools and specified categories of yarn.

\$ Providing pre-shipment credit, in rupees or dollars to Indian exporters at competitive rates by Export Import (EXIM) bank.

Housing:

\$ Refinance facility of Rs.4000 crore for the National Housing Bank by RBI.

\$ To facilitate access to funds for the housing sector, the development of integrated townships have been permitted as an eligible

end-use of the External Commercial Borrowing (ECB).

Micro, Small & Medium Enterprise (MSME) Sector:

\$ Refinance facility of Rs.7000 crore for Small Industries Development Bank of India (SIDBI) by the Reserve Bank of India (RBI) to support MSMEs.

\$ Enhancement of the loan limit to Rs. 1 crore under Credit Guarantee Scheme.

\$ Grant of need -based ad-hoc working capital loans upto 20% of the existing fund-based limits.

\$ Reduction in interest rates for borrowing by micro enterprises by 1% and in respect of Small and Medium Enterprises (SMEs) by 0.5%.

Textiles : An additional allocation of Rs.1400 crore to clear the entire backlog in Technology Upgradation Fund (TUF) Scheme.

Cement : Countervailing Duty (CVD) on Cement reimposed to protect and promote domestic Cement Industry.

Automobile :

\$ Accelerated depreciation of 50% for commercial vehicles.

\$ Assistance to the state under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) for the purchase of buses for the urban transport system.

Others : (a) Government departments are allowed to replace government vehicles within the allowed budget, in relaxation of extant economy instructions. (b) Elimination of Import Duty on Naphtha for use in the power sector. (c) Elimination of export duty on iron ore fines and reduction of duty to 5% for lumps.

In addition, Reserve Bank of India (RBI) has taken a number of steps to reduce the cost of credit and improve liquidity for industry by reducing Repo rate, Statutory Liquidity Ratio (SLR), and Cash Reserve Ratio (CRR).

The lowering of cost through reduction in interest rates and across the board cut of 4% in CENVAT rate, have helped to bring down cost and stimulate demand.